CoinDesk Indices Announces Modifications to its Digital Asset Classification Standard (DACS)

November 29, 2022 – CoinDesk Indices ("CDI") announces changes to its Digital Asset Classification Standard (DACS) Methodology and classification structure. These changes will be implemented in December and reflected in the monthly DACS publication on December 15, 2022.

In October 2022, CDI offered a Website Consultation and hosted a DACS Advisory Council that included industry leaders from exchanges, banks, asset managers, consultants, investment advisors, trading and custody platforms. The Council sought feedback from the industry regarding potential changes to the DACS framework. The feedback helped inform the DACS Committee on the set of modifications detailed below.

Modification 1 – Addition of Stablecoin Sector

Description: The Stablecoin Industry Group will be removed from the Currency Sector and promoted to a new Sector called "Stablecoin". All stablecoins will be moved to the new Stablecoin sector and be further classified into the following three Industry Groups.

- **Fiat-Backed Stablecoin** – refers to stablecoins whose collateral typically consists of fiat currencies (e.g., US dollar) or their equivalents (e.g., US Treasury Bills). The entities that issue stablecoins are often centralized organizations that operate primarily off-chain in order to manage their reserves. The reserve's primary function is to maintain the peg between the token and the target fiat currency, such as the US dollar, Euros, or other currencies.
- **Crypto-Backed Stablecoin** – refers to stablecoins in which the collateral is made up of other cryptocurrencies. This can include other types of stablecoins, Bitcoin, Ether, and non-fungible tokens (NFTs). Crypto-backed stablecoins tend to operate on-chain, where their reserves can be transparently verified by anyone, and are typically over-collateralized in order to accommodate the greater volatility of their reserves.
- **Algorithmic Stablecoin** – refers to stablecoins in which there is a dynamic change in supply to maintain the peg, either through a rebasing or seigniorage mechanism. Rebasing is a mint-and-burn mechanism that distributes the change in supply proportionally across all token holders. Seigniorage is a mint-and-burn mechanism where there is an alternative token used to maintain the peg. If the price is above or below its peg, tokens will be minted (burned). Stablecoins that are partially algorithmic are also classified as algorithmic stablecoins.

The definition of Stablecoin remains unchanged.

Modification 2 – Definition Update for the Currency Sector

CoinDesk Indices, Inc.
250 Park Avenue South, 2nd Floor
New York, New York 10003

Description: The definition of the Currency Sector will be modified.
The new definition:

Currency sector refers to any non-pegged digital asset that acts exclusively as a medium of exchange and unit of account, running on a blockchain network with the ability to complete cross-border transactions without restriction. Digital assets in the Currency sector serve the narrow purpose of being transacted on a network and tend not to have additional utility.

Modification 3 – Industry Groups Revamped within the Smart Contract Platform Sector

Description: Digital Assets in the Smart Contract Platform Sector will no longer be classified into "Single Chain" and "Multi-Chain / Parachain" Industry Groups. Instead, smart contract platforms will be classified into the following three Industry Groups:

- **Layer 0** – Layer 0 smart contract platforms act as the foundational layer for blockchain ecosystems. They serve as blockchain builders and relayers, facilitating interoperability between multiple chains on the same network. Layer 0 blockchains typically act as the "hub" of a "hub and spoke" blockchain ecosystem, providing consensus, maintaining a unified ledger, and in some cases validating blocks for the entire network. Layer 0s allow multiple blockchains on the same network to communicate and transact with each other.
- **Layer 1** – Layer 1 smart contract platforms act as the primary settlement layer of a blockchain and decentralized application (dapp) ecosystem. Most on-chain transactions and smart contract activities take place on Layer 1. A decentralized network of validators processes transactions in blocks and is compensated for its services in the form of gas fees, paid for as a fee denominated in the protocol's token. These gas fees fluctuate relative to the computational demand that the transaction imposes on the network and reflect the overall network congestion at any given time.
- **Layer 2** – Layer 2 smart contract platforms are designed as scaling solutions for Layer 1 blockchains. Layer 2s allow for significantly less expensive transactions, faster settlement, and higher throughputs. This system facilitates processes that would otherwise be too costly on a Layer 1 such as high-frequency trading, and more complex smart contract capabilities. Several Layer 2 blockchains can exist "on top" of a Layer 1 blockchain, using a system of side chains or rollups to bundle large quantities of transactions and settle them into significantly more manageable batches on the Layer 1 network.

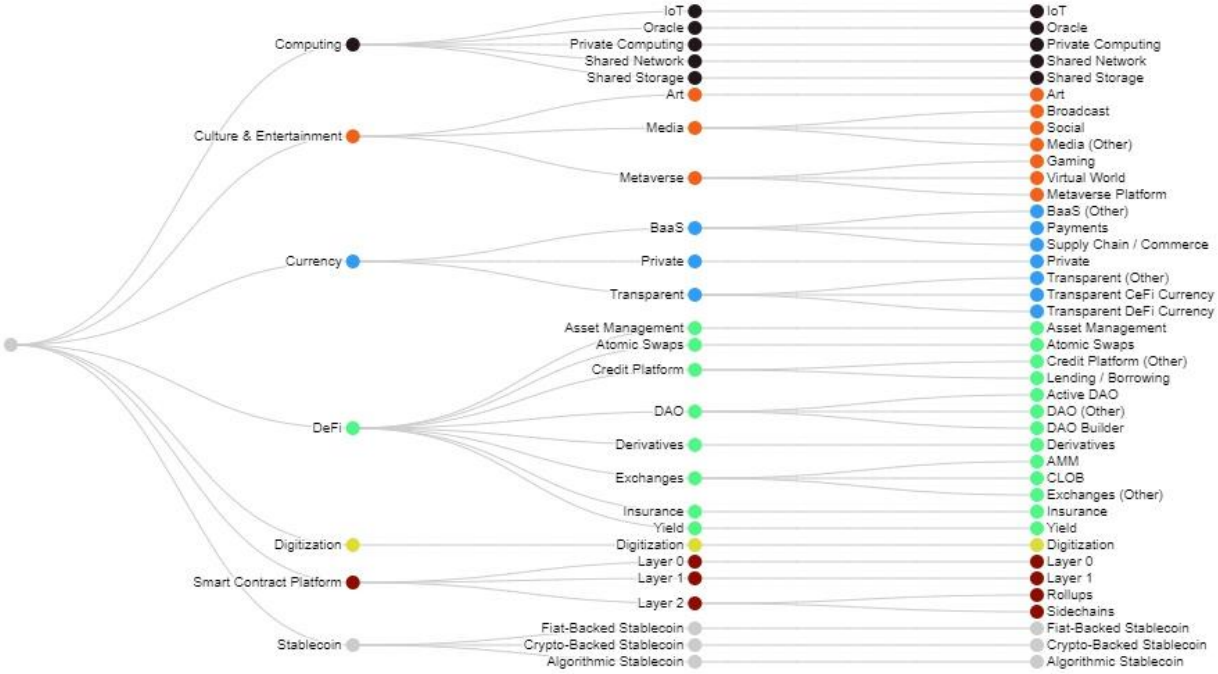
Smart contract platforms classified as Layer 2 will be further classified as either "Rollups" or "Sidechains".

Modification 4: Eligibility of certain pegged assets

Description: Pegged assets other than stablecoins will no longer be eligible for DACS. This includes assets such as PAX Gold.

DACS Hierarchy as of December 2022

7 Sectors / 26 Industry Groups / 40 Industries



CoinDesk Indices will continue to periodically review the DACS structure to ensure it continues to be an accurate reflection of the taxonomy of digital assets.

Each month, DACS is reconstituted, adhering to the methodology by evaluating and classifying the top 500 digital assets by market capitalization. You can view the current methodology, constituents and other information by visiting the DACS webpage and for updates pertaining to indices, please visit our Governance webpage.

Regards,

CoinDesk Indices

CoinDesk Indices, Inc.
250 Park Avenue South, 2nd Floor
New York, New York 10003